

MEMORANDUM

November 12, 2007

TO: Management and Fiscal Policy Committee

FROM: Multi-Agency OPEB Work Group

SUBJECT: Update for November 26, 2007 MFP Committee Meeting

The purpose of this memorandum is to provide an update, from our June 25th meeting with the Management and Fiscal Policy (MFP) Committee, on County agency activities related to implementation of Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions* (OPEB). As previously noted, tax-supported agencies impacted by GASB45 and represented on this work group include: the County, Montgomery County Public Schools (MCPS), Montgomery College (College), and the Montgomery County portion of the Maryland-National Capital Park and Planning Commission (M-NCPPC); the Washington Suburban Sanitary Commission (WSSC) is the only non tax-supported agency participating in the work group.

The focus of this status update is on the following five areas, as requested by Council staff:

1. Status of OPEB trusts;
2. Status of communication plans;
3. Status of review of options for limiting liability;
4. Projected schedule for future actuarial valuations; and
5. Lessons to date from the experience of other jurisdictions.

The current status, including progress since the June 25th meeting, is presented below for each area.

Status Report

1. Status of OPEB Trusts

As noted in June, MCPS, M-NCPPC, and WSSC had established OPEB trusts; the County and College trust work was in process. Since June, WSSC Commissioners have appointed a three member ex-officio board to manage its OPEB Trust, which includes the Chief Financial Officer, Director of Human Resources, and the Budget Group Leader.

The County has recently transmitted legislation to the Council to establish an Internal Revenue Code (IRC) Section 115 Trust for OPEB benefits, and that legislation is being introduced on the same day as this report – November 12, 2007. The legislation also provides for the County Executive to appoint a three member ex-officio board, subject to County Council confirmation, which should be comprised of the Director of Finance, Director of the Office of Human Resources, and the County Council Staff Director. Prior to formally transmitting the legislation, a draft was provided to Council staff for review and comment. The legislation submitted to the Council incorporates comments raised as a result of that process.

The College awarded a contract to Public Financial Management (PFM) at the October 15th Board of Trustees meeting; the scope of the contract is for designation of the trust administrator and investment management services. The College has reviewed a project timeline with PFM, and anticipates, during the next two months, development of the trust document, performance of an asset allocation study, and creation of the investment policy, with a plan to provide these deliverables to the Board for approval in January.

One issue related to the trust that has been a topic of recent discussions is reversionary language in the trust documents. Reversionary language would address, in the event of plan termination, what would happen to any residual trust assets after all plan benefits and expenses were paid out. A situation under which this might occur is if national health care was established, eliminating the need for individual employer plans. The trust documents for M-NCPPC and WSSC, and the submitted legislation for the County, include language that provides, in the situation where the plans are terminated and all benefits have been paid out, that the assets in the trust will revert to the plan sponsor/employer. The College has been encouraged to include such language in its trust document. The MCPS master trust does not contain reversionary language. MCPS has discussed the need for such language with its legal counsel, and efforts are underway to amend the trust document to include such language to ensure a clear and early understanding of the planned disposition of assets in such a situation.

A related issue discussed is how such an unlikely scenario might impact the County's budgeting processes, if such resources at some point would revert back to each agency as plan sponsor. It has been discussed that the Council could, at that time, consider such funds to be available resources to fund the operating budgets, and offset those amounts against appropriations to arrive at actual cash funding to be sent to the respective agencies. A potential complicating factor with MCPS is the State's maintenance of effort calculation. The State recently issued a

letter to local governments and public school systems communicating certain guidance on how earmarking of prefunding contributions to OPEB might be treated for state maintenance of effort purposes. We are not aware that the State has issued any guidance on the impact of trust reversions on the maintenance of effort calculations. The County and MCPS would intend to hold discussions with the State to try and obtain guidance on how such a scenario would impact the maintenance of effort calculations.

2. Status of Communication Plans

Since the June meeting, the following activities have occurred in the area of communications:

- The County OPEB website, newly created, can be accessed from the Finance department home page. Information posted on the website includes frequently asked questions, actuarial valuation(s), fiscal analysis, multi-agency reports to the MFP Committee, and Council/Committee packets.
- M-NCPPC attended a meeting with its retiree group to discuss OPEB benefits. WSSC included an article on OPEB in its retiree newsletter and in open enrollment documents. The College is getting ready for a mailing to retirees to summarize year end activity where this topic may be discussed. In addition, OPEB benefits were discussed at great length in the annual Benefit Review Committee meeting, Cabinet meeting, and other college-wide administrator meetings.

3. Status of Review of Options for Limiting Liability

Since the last MFP Committee update, a joint medical and prescription Request for Proposal (RFP) was issued under all agencies (MCPS, the County, College, M-NCPPC, and WSSC). Through bulk purchasing power and aggressive negotiations, that effort is estimated to produce savings in prescription drug costs of over \$20 million across all agencies for plan years 2008 – 2010.

The joint RFP also helped agencies to control costs associated with administrative charges for self insured medical plans, as well as premiums for fully insured medical plans.

For the County, administrative charges for the Carefirst Point-of-Service plans were held to increases of 3.8% for 2008 with caps in place for 2009 and 2010. In the case of the Carefirst Indemnity Plan, the administrative charges actually decreased for 2008 (5.8%) with similar caps for the following 2 years. Premiums for Kaiser (medical and prescription coverage) were reduced by 1.8% for 2008.

M-NCPPC expects to incur some cost savings by moving the Aetna HMO from a fully insured status to a self insured status effective January 1, 2008. Carefirst administrative rates will increase by 9.1% for 2008, but with caps in place for 2009 and 2010.

MCPS expects an additional \$800,000 in annual administrative cost savings from the medical plan bid, in addition to the savings in plan costs from the prescription joint bid (MCPS portion of the overall \$20 million savings in prescription costs is \$4 million).

The College will experience savings of 6% in medical plan administrative costs from the joint bid. The College also conducted bids for its dental, life and LTD plans. Significant savings were realized for all lines of coverage including: 18% in administrative costs for the dental PPO, 24.5% in the dental HMO, 23% in life insurance and 34% in Long Term Disability. Three-year rate guarantees were also negotiated.

At the June MFP Committee meeting, the Council Chair stated that the current benefit structures are not sustainable. Subsequent to that meeting, a subgroup of the Multi-Agency OPEB Work Group met to discuss options for limiting the overall OPEB liability. Those options were in the context of the generic scenarios previously provided to the MFP Committee, and included again as Attachment A.

The County is currently looking at options in the context of collective bargaining. Aon Consulting was engaged to determine the impact on the OPEB liability associated with a comprehensive set of options identified. Ground rules agreed to at the start of bargaining prohibit the County and the union from discussing items currently on the table in public forums. The County's Collective Bargaining Law mandates that after an agreement is signed, that both parties support the agreement.

M-NCPPC completed an initial review of options for limiting liability in the summer of 2006 after negotiations had been finalized with one union. M-NCPPC is similarly prohibited from publicly sharing any items that are currently under union negotiations.

The MCPS Joint Employee Benefit Committee, which is a joint labor/management committee with representatives from MCPS, the three bargaining units, and the retiree association, are working together with the insurers to analyze plan experience and identify opportunities for cost containment, and cost avoidance.

The College is considering the following in reference to limiting future OPEB liability.

- Increasing years of service from 5 to 10 for eligibility. Currently employees that have 5 years of service are eligible for retiree benefits. Cost sharing for this group of retirees is 40% College, 60% Retiree. Employees that have 10 or more years of service are eligible for a higher cost sharing, 60% paid by the College, 40% paid by the Retiree.
- Changing the prescription benefit plan design. Currently, a three tier plan (\$10, \$20, \$40) is offered with a mail order incentive plan (\$20, \$40, \$80 - 90 day supply). Under consideration is a fixed co-payment for generics that would revert to cost sharing for the formulary and brand tiers. As an alternative, scenarios will be reviewed that would require generics, where available.
- Incentives for employees to use medical in-network services by lowering the co-insurance subsidy for out-of-network services from 80/20 after deductibles have been met to 70/30.
- Changing OPEB coverage for new hires.

A survey on Plan Sponsor Options for Retiree OPEB was sent to 17 local jurisdictions and responses were received by nine. Three of the jurisdictions have already made changes to their retiree OPEB as a result of GASB45. Most changes involved changing the eligibility and/or the subsidy for retiree OPEB. Of those jurisdictions that have not yet made changes, all who responded were either considering changes or were not sure at this time. The survey results are included as Attachment B.

In addition, Attachment C, page 2 presents information obtained through phone calls with other jurisdictions, on the actions they are taking to limit their OPEB liability. The purpose of Attachment C, how it was compiled, and information regarding reliability of the information is presented later in this status report under 5. Lessons to Date from Other Jurisdictions – County Comparable Jurisdiction Research. As can be seen from Attachment C, page 2, jurisdictions reported positions ranging from no current OPEB liability, to changes already made or in process, to no action taken yet but changes being evaluated, to no changes planned.

4. Projected Schedule for Future Actuarial Valuations

WSSC's valuation as of June 30, 2007 has been completed. All other agencies are in the process of having their 2007 annual valuations prepared. It is anticipated that the agencies will have results in final, or close to final, form by December 1. The College's valuation has been prepared under Financial Accounting Standards Board (FASB) standards (the not-for-profit standards that the College was previously accountable under), and they are coordinating with their actuary to provide a current valuation under the GASB standards.

5. Lessons to Date from the Experience of Other Jurisdictions

Item #3 in this report is focused on options for limiting liability. In this section we will share other information gathered about how other jurisdictions are managing or dealing with OPEB.

Maryland Association of Counties (MACo) Survey Results

Attachment D presents a listing of the OPEB actuarial accrued liability and annual required contribution (ARC), prepared by MACo as a result of several surveys they issued on this topic. The listing indicates which agencies (i.e., schools, community college) are included in the amounts presented. While 4 jurisdictions are listed as no information yet available, of the 20 remaining jurisdictions, Montgomery County has the highest reported liabilities. One item of note relates to Prince George's County – while the OPEB liability is reported to include all agencies listed, it is our understanding that the ARC presented may only represent the county's portion of the ARC.

County Comparable Jurisdiction Research

At the June MFP Committee meeting, the Work Group presented a schedule of other large triple-AAA rated jurisdictions against which the County typically benchmarks itself. The schedule included information obtained from web research and phone calls on the status of the jurisdictions' activities in areas such as actuarial valuations, funding, and plan design. At that time, the Committee asked us to add some additional jurisdictions to the surveyed group, to go beyond triple-AAA rated jurisdictions, and to provide an update at this meeting.

Attachment C presents the results of these efforts. We have significantly expanded the group surveyed to include 20 jurisdictions, including both AAA and AA rated jurisdictions. We have attempted to include jurisdictions from across the United States, and to ensure the population size is somewhat consistent with the County. We have also expanded the report to include information such as number of employees, whether the jurisdiction's employees are represented by unions, and in the situation where a trust has not yet been established, whether funds have been designated towards future OPEB use. The information presented is solely based on research via the web and on verbal representations made by personnel from the jurisdictions contacted. The jurisdictions we surveyed were forthcoming to varying degrees; however some of the ones we had previously polled started to express a resistance to a periodic update process, and may be less willing to share information in the future.

Of the 20 jurisdictions polled, we would highlight the following:

- All are Phase 1 governments, and therefore are subject to GASB45 accounting and reporting beginning in FY08.
- For the Maryland jurisdictions, there are inconsistencies with the MACo survey results in Attachment D. The MACo listing was obtained after Attachment C was prepared, and we have not invested any significant research time with MACo or individual jurisdictions in attempting to resolve these discrepancies. We believe that for purposes of accumulating information on how others may be managing their liabilities, any differences would not have a material affect on the County's research.
- 5, or 25% of the jurisdictions polled, had not completed an actuarial valuation, either because they have no OPEB obligation, any OPEB obligation is limited to an implicit rate subsidy which may not be material, or the valuation work is just not yet complete.
- Of the 15 jurisdictions with valuations, most have an AAL that is lower than Montgomery County's – in fact 7 have an AAL that is approximately 10% or less than the County's AAL ; Los Angeles County, California and Nassau County, New York are examples of jurisdictions where the AAL is larger than Montgomery County's.
- Of the 15 jurisdictions with valuations, 7 have established a trust or plan to do so, 2 are under consideration, 4 have not yet created a trust but discussions on next steps are in process, and 2, Hennepin County and Westchester County reported that they do not intend to create a trust. It should be noted that Hennepin County reported that non-union future new hires will not be offered OPEB benefits, and future retiree benefit cuts are planned. Westchester's AAL is approximately ½ of Montgomery County's.
- Of the 15 jurisdictions with valuations, 6 reported having funds already designated or set aside for OPEB purposes.

- Of the 8 jurisdictions that reported phase-in funding plans, the breakout by planned phase-in period is summarized below:

<u>Planned years</u>	<u># of Jurisdictions</u>
Full ARC in first year	1
4-5 Years	1
5 Years	3
5-8 Years ¹	1
6 Years ²	1
10 Years ³	1

- 1 – Howard County, MD - \$476.6m AAL, \$14m already designated, AAA bond rating.
- 2 – Carroll County, MD - \$98.2m AAL, retiree eligibility and premium contributions have been changed, AA bond rating.
- 3 – Prince George’s County, MD - \$2.7b AAL, reported that funds have been designated, AA bond rating.

Information Available from Research or Best Practice Organizations

In discussions with Council staff, it was suggested that there might be information on what others are doing in areas such as plan design and funding, readily available from best practice organizations that would conduct such research regionally or nationally. Other than the MACO survey results previously presented, we were unable to readily locate such a group or a consolidated set of best practices. We polled the actuarial firms with which we worked, and they also were not aware of any such best practice firms.

However, we did obtain information from several actuarial firms that represented results of either their firm’s surveys or that drew from their client experiences. Attachment E is a list compiled by Bolton Partners of plan changes, made or under consideration, by area jurisdictions. Attachment F contains slides provided by Mercer Consulting of plan changes, made or under consideration, by selected governments nationally. Attachment G is a report produced by Aon Consulting, Navigating the GASB OPEB Standards – Aon Consulting’s 2007 GASB OPEB Survey. The report presents survey information on OPEB plans offered to retirees (page 3), valuation results (pages 4 – 5), funding options (pages 6 – 8), and plan design changes (page 9); survey results are summarized on pages 13 – 17.

It should also be noted that Montgomery County is one of 10 jurisdictions that was asked by the National Association of Counties (NACo) to participate in a national study they were sponsoring; publication by NACo of the results of that project are expected at any time.

Information Publicly Available in the Press or on the Internet

In terms of what others are doing, we would also share the following information, gathered through internet research or from various organizations, to supplement information provided above:

- In September 2007, the United States General Accountability Office issued a 70 page report entitled State and Local Government Retiree Benefits – Current Status of Benefit Structures, Protections, and Fiscal Outlook for Funding Future Costs. Included in the observations were the following statements: “Across the state and local government sector, the ability to maintain current levels of public sector retiree benefits will depend, in large part, on the nature and extent of the fiscal challenges these governments face in the years ahead.....Given that our simulations show that over the next several decades, the cost of providing health care benefits for public sector retirees will more than double as a share of salaries, state and local governments may find it difficult to maintain current benefit levels....” The full report can be found at <http://www.gao.gov/new.items/d071156.pdf>
- The Association of Orange County Deputy Sheriff’s agreed to transition to a defined-contribution medical benefit plan for retirees; the change will be mandatory for new hires and optional for existing employees.
- It has been reported that Los Angeles County, California has created an OPEB Trust.
- Northampton County, Pennsylvania is reported to be considering eliminating retiree health care benefits for new hires.
- Although it had been reported in the press that the State of Texas would pass a law allowing jurisdictions to not comply with the GASB standards, it is our understanding that substantially all Texas jurisdictions will be adopting the GASB OPEB standards.

We have attempted to provide the MFP Committee with a range of OPEB information to facilitate your discussions on this topic.

The Work Group appreciates this opportunity to keep the MFP Committee apprised of agency progress towards OPEB implementation, and to provide information on related topics of interest to the Committee. Representatives from each agency and several of the actuarial firms will be present at the November 26, 2007, MFP Committee meeting to answer questions about the material provided.

Attachments

POST RETIREMENT GROUP INSURANCE

Generic Scenarios to Reduce OPEB Liability

Premise

Reducing the future costs of providing post retirement group insurance will reduce the overall liability to an organization and therefore reduce the amount of that liability to be funded. Many organizational factors will influence which options will be considered and which will not. The template below is only an attempt to identify various factors that influence group insurance costs.

Affected Groups

- Current Retirees
 - Medicare
 - Non-Medicare
- Current Actives
 - Retirement eligible
 - Not retirement eligible
- Future New hires

Factors influencing post retirement group insurance costs and related action considerations for addressing costs

- Eligibility for post retirement group insurance
 - Considerations –*
 - More rigorous age and service requirements for employees
 - Availability to dependents
 - Health coverage not available to dependents
 - Health coverage not available to dependents if eligible for coverage elsewhere
 - Not eligible for post retirement medical or prescription when Medicare becomes primary
- Employer contribution towards post retirement group insurance
 - Considerations –*
 - Reducing contribution amounts overall
 - Weighting rates based on years of service
 - Percent of contribution based on lowest cost plans with retiree paying the rate differential for more costly plans

- Contribution towards retiree group insurance only, with retiree paying rate differential for dependents
 - Contributions based on flat dollar amounts versus percent of premium (could be incorporated via a Health Savings Account in a Consumer Directed Health Plan)
 - Determining the effect of active-retiree subsidy practices on post retirement costs
- Funding
 - Considerations –*
 - Potential advantages of moving to fully insured Medicare supplement plans
 - Active employees pre-funding a portion of their post retirement benefit cost.
- Benefit delivery mechanisms
 - Considerations –*
 - Mandatory generic drugs where available
 - Mandatory use of mail order for certain maintenance drugs
 - Use of certain pharmacies for specialty drugs
- Plan design changes
 - Considerations –*
 - Deductible amounts
 - Co-pay amounts
 - Co-insurance levels
 - Mandatory prescription formularies
 - Annual out-of-pocket and lifetime maximums
 - Post retirement life insurance amounts
- Items covered
 - Considerations –*
 - Exclude certain items currently covered for medical, dental and prescription
- Plan elimination
 - Considerations –*
 - Not offering certain benefits post retirement, such as dental
 - Offering discount programs versus full coverage, e.g., for dental

Survey: PLAN SPONSOR OPTIONS FOR RETIREE OPEB

Author: ERIC WALLMARK

Filter:

Responses Received: 9

What jurisdiction do you represent?

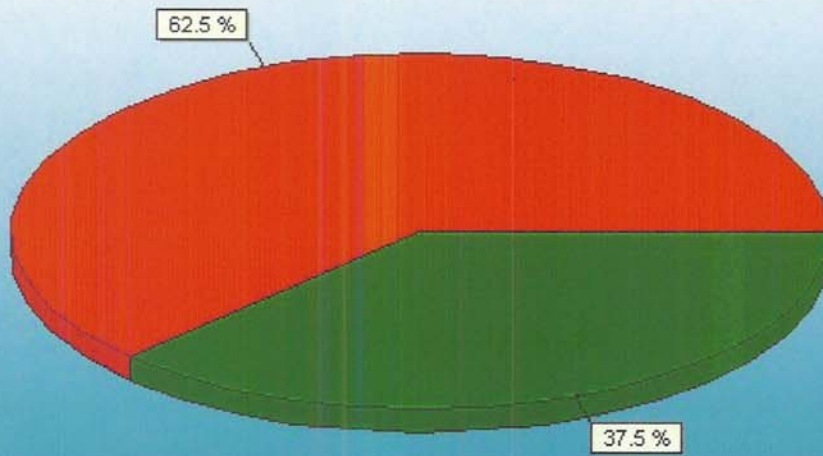
Response	Count	Percent
State of Maryland	1	11.1%
City of Baltimore	0	0.0%
Baltimore County Government	1	11.1%
Baltimore County Public Schools	0	0.0%
Anne Arundle County Government	1	11.1%
Anne Arundle County Public Schools	0	0.0%
Carroll County Government	1	11.1%
Carroll County Public Schools	0	0.0%
Harford County Government	1	11.1%
Harford County Public Schools	1	11.1%
Howard County Government	0	0.0%
Howard County Public Schools	0	0.0%
Prince Georges County Government	0	0.0%
Prince Georges County Public Schools	0	0.0%
Other	3	33.3%

"Other" responses:

Baltimore City Public School System
Fairfax County
Frederick County Public Schools

Have you made changes to your retiree OPEB as a result of GASB 45?

5 No
3 Yes



If your answer to question 2) is Yes, what type of changes have you made?

Response	Count	Percent
Changed eligibility for retiree OPEB	3	33.3%
Changed the employer subsidy for OPEB	2	22.2%
Changed/Eliminated employer subsidy for certain coverage tiers (e.g., no longer subsidize dependent health coverage)	1	11.1%
Changed/Eliminated employer subsidies for certain plan offerings (e.g., provide a subsidy equal to the lowest cost health plan with retirees paying the full differential for higher cost plans)	0	0.0%
Eliminated coverage for health and Rx at Medicare eligibility	0	0.0%
Reduced/Eliminated certain benefit offerings (e.g., reduced the amount of retiree life insurance)	0	0.0%
Implemented cost containment initiatives (e.g., mandatory mail order Rx; mandatory generic Rx)	1	11.1%
Changed the basis for subsidizing retiree OPEB (e.g., % to flat dollar)	1	11.1%
Implemented a Defined Contribution type health plan (e.g., CDHP with an HSA)	0	0.0%
Other	2	22.2%

"Other" responses:

Eliminated Open Enrollment for Retirees.
We don't have retirees.

**Are you considering changes to your retiree OPEB due to GASB 45 in the near future?
Also, if you have already made changes to your retiree OPEB, are you considering
additional changes in the near future?**

Response	Count	Percent
Yes	2	25.0%
No	0	0.0%
Not Sure	6	75.0%

If your answer to question 4) is Yes, what types of changes are you considering?

Response	Count	Percent
Changed eligibility for retiree OPEB	1	11.1%
Changed the employer subsidy for OPEB	0	0.0%
Changed/Eliminated employer subsidy for certain coverage tiers (e.g., no longer subsidize dependent health coverage)	0	0.0%
Changed/Eliminated employer subsidies for certain plan offerings (e.g., provide a subsidy equal to the lowest cost health plan with retirees paying the full differential for higher cost plans)	0	0.0%
Eliminated coverage for health and Rx at Medicare eligibility	0	0.0%
Reduced/Eliminated certain benefit offerings (e.g., reduced the amount of retiree life insurance)	0	0.0%
Implemented cost containment initiatives (e.g., mandatory mail order Rx; mandatory generic Rx)	0	0.0%
Changed the basis for subsidizing retiree OPEB (e.g., % to flat dollar)	0	0.0%
Implemented a Defined Contribution type health plan (e.g., CDHP with an HSA)	0	0.0%

Must changes to your OPEB be collectively bargained?

Response	Count	Percent
Yes	2	25.0%
No	5	62.5%
Not Sure	1	12.5%

Please provide any additional information or comments related to the questions above.

For retirees who retired after 1/1/06, higher premiums are charged. For those who were hired after May 1, 2005...they will need to work longer (15 years minimum with Age Plus years of service totaling at least 75) to be eligible for retiree health care...and their premium payments will be higher than the other two groups.

We also removed the hidden subsidy on the retiree under 65 premiums. Prior to 7/1/07 we were using a blended rate and actives and retirees were paying the same. We now rate each group and premiums are charged accordingly.

Retirees from Baltimore City School System receives health insurance benefits through the City of Baltimore Government

Baltimore County made significant changes to employees on/after 7/1/07 and to anyone retiring on/after 7/1/07 with less than 30 yrs svc (25 if pub safety). Additionally, employees on/after 7/1/07 will earn flat \$ amount toward OPEB costs when they retire.

Will be evaluating Medicare D plan offerings in the future.

The MD General Assembly has directed a Blue Ribbon Commission on the Funding of Retiree Health Care to investigate GASB and report to the Governor and General Assembly on their findings and recommendations. At that point, we will see their recommendations. Of course, any change is subject to final approval by the Legislature and the Governor.

Yes, we are considering changes, but don't know what yet!

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[This online survey report was created with WebSurveyor](#)

**OTHER POST-EMPLOYMENT BENEFITS
SURVEY OF LARGE-POPULATION 'TRIPLE AAA' AND OTHER COUNTIES
OCTOBER 2007**

Attachment C

County	State	Population (2005)	Number of Employees/ Retirees	Do They Have Unions?	Moody's	S&P	Fitch	Phase I or II?	Actuarial Valuation Completed?	As of Date	Total AAL	Total ARC	Total AAL per capita	Trust Created?	Balance of Trust	Do They Have Funds Designated?	Phase-in plan?	Budgeting Starting When?
Baltimore	MD	783,405	8,173/5,019	Yes	Aaa	AAA	AAA	I	Yes	May-07	\$1.8 bln	\$150 mln	\$ 2,298	Yes	\$155 mln	Yes	4 -5 years	FY07
DuPage	IL	931,219	2,944/234	Yes	Aaa	AAA	AAA	I	No	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Fairfax	VA	1,042,601	12,024/6,691	No	Aaa	AAA	AAA	I	Yes	1-Jul-06	\$143.3 mln	\$15.2 mln	\$ 137	Planned	N/A	Yes	Immediate	FY08
Hennepin	MN	1,118,746	11,170/1,116	Yes	Aaa	AAA	AAA	I	Yes	1-Jan-07	\$281 mln	\$25.7 mln	\$ 251	Not planned	N/A	N/A	N/A	N/A
Mecklenburg	NC	796,369	3,934/754	No	Aaa	AAA	AAA	I	Yes	1-Aug-06	\$141.8 mln	\$16 mln	\$ 178	Planned	N/A	No	5 years	FY08
MONTGOMERY	MD	927,405	34,239/16,516	Yes	Aaa	AAA	AAA	I	Yes	1-Jul-06	\$2.6 bln	\$240 mln	\$ 2,804	Planned	None yet	No	5 years	FY08
Palm Beach	FL	1,264,956	6,594/495	Yes	Aaa	AAA	AAA	I	No	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
St. Louis	MO	1,002,258	3,790/1,956	Yes	Aaa	AAA	AAA	I	No	N/A	N/A	N/A	N/A	Not planned	N/A	N/A	N/A	N/A
Salt Lake	UT	960,297	4,411/987	Yes	Aaa	AAA	AAA	I	No	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Wake	NC	750,865	3,406/554	No	Aaa	AAA	AAA	I	Yes	Jan-06	\$109 mln	\$15 mln	\$ 145	No	N/A	No	N/A	N/A
OTHER COUNTIES																		
Anne Arundel	MD	509,397	11,016/4,919	Yes	Aa1	AA+	AA+	I	Yes	2006	\$1.3 bln	\$117.6 mln	\$ 2,552	No	N/A	N/A	N/A	N/A
Broward	FL	1,782,016	12,673/632	Yes	Aa1	AA+	AA+	I	Yes	30-Sep-05	\$304 mln	\$37 mln	\$ 171	Under consideration	N/A	No	N/A	N/A
Carroll	MD	169,397	1,050/185	No	Aa2	AA	AA+	I	Yes	2-May-06	\$98.2 mln	\$10.3 mln	\$ 580	FY08	\$0	No	6 years	FY08
Frederick	MD	220,409	2,085/658	Yes	Aa2	AA	AA+	I	Yes	1-Jul-07	\$149 mln	\$13.9 mln	\$ 676	Planned	N/A	Yes - GF	5 years	FY08
Howard	MD	269,174	9,686/2,085	Yes	Aaa	AAA	AAA	I	Yes	1-Aug-06	\$476.6 mln	\$53.2 mln	\$ 1,771	Planned	N/A	\$14m	5-8 years	FY08
Los Angeles	CA	9,941,197	93,200/51,000	Yes	Aa3	A+	NR	I	Yes	30-Jun-06	\$20 bln	N/A	\$ 2,012	Under consideration	N/A	No	No	Not Determined
Montgomery	PA	774,666	3,405/1,302	Yes	Aaa	AA	NR	I	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Nassau	NY	1,331,620	9,794/10,397	Yes	A3	A	A+	I	Yes	1-Jan-07	\$3.4 bln	\$292 mln	\$ 2,553	No	N/A	No	No	N/A
Orange	FL	1,021,884	9,588/1,345	Yes	AA	AA	A1	I	Yes	Sep-06	\$73 mln	\$6.9 mln	\$ 71	Yes	\$6.2 mln	No	No	FY07
Prince George's	MD	842,764	24,000/8,000	Yes	Aa2	AA+	AA+	I	Yes	1-Jul-06	\$2.7 bln	\$225 mln	\$ 3,204	No	N/A	Yes - \$25 mln	10 years	FY08
Westchester	NY	947,719	5,500/3,700	Yes	Aaa	AAA	AA+	I	Yes	31-Dec-05	\$1.1 bln	\$37 mln	\$ 1,161	No	N/A	Yes	No	N/A

**OTHER POST-EMPLOYMENT BENEFITS
SURVEY OF LARGE-POPULATION 'TRIPLE AAA' AND OTHER COUNTIES
OCTOBER 2007**

Attachment C

County	State	Actions Taken to Limit Liability
Baltimore	MD	Through labor negotiations changes were made to retiree health care benefits (requiring employees to work longer to qualify), resulting in a 16% reduction in AAL and a one-third reduction in ARC.
DuPage	IL	County is reimbursed 100% of retiree health insurance premiums by the retirees, thus no OPEB cost in FY05. They may have OPEB liability due to active vs. retiree implicit rate subsidy.
Fairfax	VA	Will maintain current benefits. Annual OPEB funding will exceed ARC; liability will be fully funded after 30-year amortization.
Hennepin	MN	Upon reaching age 65 (medicare eligibility) retirees are not provided with healthcare benefits. Effective January 1, 2007 new hires that are non-organized employees will not be eligible for OPEB benefits. They do not plan on creating a trust, will continue on a pay-as-you-go basis and are using a 5% discount rate. Also, future retiree benefit cuts are planned, thus reducing AAL.
Mecklenburg	NC	County pays 100% of insurance premiums for retirees with 20+ years of active service; 50% for those with 10-19 years of service. Mecklenburg will maintain current benefits. Trust to be established on County's behalf by State of North Carolina.
MONTGOMERY	MD	Various union negotiations in process.
Palm Beach	FL	Limited number of retirees receive benefits.
St. Louis	MO	Upon retirement, the retiree is allowed a one-time option to retain existing health care plan at their own expense. County may have a potential liability due to implicit rate subsidy, but current reimbursement rate by those retirees that participate should limit this exposure. We are discussing this with actuary of retirement plan to confirm. Union activity is minimal and limited to meet and confer at this time.
Salt Lake	UT	Actuarial valuation is pending and expected soon. No actions taken yet to limit liability. Unions are allowed to present their views during budget sessions, but the County does not engage in collective bargaining with them.
Wake	NC	Wake is "seriously considering terminating benefit"; if they don't, they will "convert to defined contribution."

OTHER COUNTIES

Anne Arundel	MD	GASB 45 taskforce issued a report dated November 8, 2006 that did not provide any specific recommendations or solutions.
Broward	FL	As part of labor negotiations, the Broward Sheriff's Office (where most of the liability is incurred) will eliminate post-employment benefits for new hires.
Carroll	MD	Retirees must now have more years of service to qualify for benefits, and must pay a higher percentage of the premium.
Frederick	MD	HR Division proposed changes to the Board of County Commissioners relative to new employees, geared toward having graduated levels of employer/employee participation based on years of service and more coordination with Social Security. Benefits remain for life.
Howard	MD	In order to be eligible, the retiree must have a minimum of ten years of County service. The County will make minor changes to the OPEB benefit as soon as it is practicable and this will reduce OPEB liability.
Los Angeles	CA	The County makes payments to Los Angeles County Employee Retirement Association (LACERA) which administers the health care benefits to retirees. The actuarial report has been prepared but it is not publicly available.
Montgomery	PA	Do not offer health insurance to retirees. Therefore, no impact of GASB-45.
Nassau	NY	No action take yet. Staff will meet with County Executive within 2 - 3 weeks to get direction on how to proceed with this issue.
Orange	FL	No changes made to existing OPEB plan. Majority of liability in is implicit rate, and state law allows retirees to continue in County group insurance plan at same rate as active employees. Otherwise, a flat rate health insurance subsidy is the only other OPEB benefit, and it does not change with increases in medical costs.
Prince George's	MD	No changes have been finalized.
Westchester	NY	No action taken or contemplated. (Return call outstanding on the relationship of their AAL to ARC.)

County Estimated Post Employment Liabilities

Attachment D

Results form latest actuarial studies:

Reported figures include:

<u>County</u>	<u>OPEB Liability</u>	<u>Annual Required Contribution</u>	<u>County</u>	<u>Schools</u>	<u>Libraries</u>	<u>Comm Coll</u>	<u>Notes</u>
Allegany	37,279,000	3,578,000	●				2
Anne Arundel	1,270,024,474	117,573,000	●	●	●	●	
Baltimore City	<i>not available</i>	<i>not available</i>	<i>actuarial analysis pending</i>				
Baltimore County	1,800,000,000	150,000,000	●	●	●	●	
Calvert	154,081,095	13,268,655	●	●			
Caroline	73,454,000	6,715,000	●	●			1
Carroll	266,800,000	17,074,000	●	●	●		
Cecil	45,827,000	4,275,000	●	●			
Charles	386,228,000	36,810,000	●	●			1
Dorchester	20,355,837	2,203,464	●				
Frederick	416,676,000	44,302,000	●	●	●		
Garrett	46,570,000	2,997,000	●	●		●	
Harford	457,655,000	47,000,000	●	●	●		
Howard	476,600,000	53,000,000	●	●	●	●	
Kent	<i>not available</i>	<i>not available</i>	<i>actuarial analysis pending</i>				
Montgomery	2,600,000,000	240,000,000	●	●	●	●	3
Prince George's	2,170,000,000	85,000,000	●	●	●	●	4
Queen Anne's	66,334,000	6,598,000	●	●			
St. Mary's	214,000,000	12,800,000	●	●	●		5
Somerset	<i>not available</i>	<i>not available</i>	<i>actuarial analysis pending</i>				
Talbot	<i>not available</i>	<i>not available</i>	<i>actuarial analysis pending</i>				6
Washington	135,754,000	10,660,000	●	●			
Wicomico	74,400,000	5,000,000	●	●			
Worcester	121,618,486	17,014,392	●	●			
Statewide Total	10,833,656,892	875,868,511					

Footnotes:

¹ - values are the "unfunded" liability, as indicated by the county's actuarial study

² - no estimate yet available for county component units, including schools and libraries

³ - includes all tax-supported agencies, including county portion of M-NCPPC

⁴ - ARC figure represents county employees only

⁵ - BOE/library figure assumes an unfunded liability, though county has started making payments to both

⁶ - county has "pre-funded" \$6.35m

Data gathered by Maryland Association of Counties, surveys in June and September, 2007.

Rough List of OPEB Changes

Baltimore County Gov.:

- Changed % subsidy (major for 10-15 yr people)
- Minor changes in plan copays
- Revised pension NRA and added/changed DROP
- Retiree plan is a flat dollar plan based on YOS
- Lowered % subsidy for actives (non OPEB)
- Non OPEB new hires – lower employee subsidy for dependents

Baltimore County Schools: small changes in Drug Copay

Harford County Schools: eliminated hidden subsidy

Harford County Gov. (opposite from trend: significant increase in GASB cost):

Had flat dollar subsidy and went to % of cost

Flat dollar top amount covered 70% to 75% of cost

Top tier will become 90% when fully phased in

St. Mary's Gov.:

Old plan 85% top tier after 16 YOS

Changed to 25 YOS to get top 85% effective if retired 7/2010 and later

Carroll County Gov.:

Old plan: retirees paid same as actives

Increased retiree share to 1.25 times (25+ YOS) or 2 times (10-15 YOS)

Reduced retiree subsidy for new hires

Frederick County Gov.: specific changes proposed

Anne Arundel County Gov.: potential changes listed but no specific proposal

Howard County Gov.: potential changes listed but no specific proposal

Montgomery County and Schools: Any specific changes are part of bargaining and are confidential

Prince William County Gov. (VA): Small flat dollar subsidy. Some increase. Public Safety pushing for a %.

p.s. MABE is moving ahead with setting up an OPEB pool.

Retiree Medical Strategy Plan Design Examples – Defined Dollar Benefit

County of Orange (2006)

- Retiree medical coverage provided to both pre-65 and post-65 retirees
- Retiree pays cost of premium less employer-provided subsidy
 - Pre-65 premiums based on blended rates (same as actives' rates)
 - Subsidy is a fixed amount per year of service
- Current employer-provided subsidy – Grant
 - \$16 per month, per year of service
 - Same for pre-65 and post-65
 - Same amount whether single or family coverage
 - Subsidy amount is indexed (may increase up to 5% each year)
- Employees contribute 1% of pay to help pay for retiree medical grant
 - Contributions refunded if employee terminates early
 - Surviving spouse receives 50% of grant amount

Retiree Medical Strategy Plan Design Examples – Defined Dollar Benefit

County of Orange (2008 - tentative)

- Retiree medical coverage provided to both pre-65 and post-65 retirees
- Retiree pays cost of premium less employer-provided subsidy
 - Pre-65 premiums based on unblended rates
 - Subsidy is a fixed amount per year of service
- Employer-provided subsidy – Grant
 - \$16 per month, per year of service (2006 value)
 - Grant amount is reduced by 50% when eligible for Medicare Part A
 - Grant further adjusted based on retirement age
 - 10% reduction each year prior to age 62
 - 10% increase each year past age 62
 - Same amount whether single or family coverage
 - Subsidy amount is indexed (may increase up to 3% each year)
 - Surviving spouse receives 50% of grant amount

Retiree Medical Strategy Plan Design Examples – Defined Contribution

City of Anaheim (Hired After 2002)

- Retiree medical coverage provided to both pre-65 and post-65 retirees
 - Pre-65 retiree premiums based on blended rates
- Retirement Health Savings accounts are established for each individual
 - City contributes \$3,000 when hired
 - City makes an annual contribution of 1% of pay at end of each year
 - Employees contribute 3% of pay each pay period into account
- City contributions are vested after five years
 - Employee contributions are vested immediately
- Account funds may be invested among 18 different investment vehicles
 - Basically the same investment choices provided under 457 plan
 - Investment earnings are non-taxable
- Account balance can be used to pay for City-sponsored retiree medical coverage
 - Benefits can also be used to reimburse any qualified medical expense
 - Benefits payable for qualified expenses under plan are tax-free

Retiree Medical Strategy Other Reactions to GASB 45

- State of North Carolina: New employees (hired after October 1, 2006) who retire with
 - 20+ years of service: state pays 100% of premium
 - 10, but less than 20 years of service: state pays 50% of premium
 - Less than 10 years of service: no retiree medical benefits.
 - Previously state paid 100 percent of premium for retirees with 5+ years of service.
- Increased length of service for eligibility and increased retiree share of premium
 - Orlando, FL
 - Arlington, TX
- State of Ohio: Reduced premium subsidy for shorter service retirees, and pre-funding
- Placer County, CA: instituted 10% premium cost sharing for current and retired employees
- Sacramento County, CA: Ended medical and dental subsidies for future retirees
- Peoria, IL: Increased active and retiree premiums, eliminated Medicare Part B subsidy

How Are Public Entities Navigating the GASB OPEB Standards?

Just as the private sector continues to battle rising health care costs, public sector employers are battling the high cost of retiree health care and are looking at ways to manage them. Highlighting that fact, the Government Accounting Standards Board (GASB) is now requiring public sector employers to meet two new accounting statements, one for plans (Statement 43) and one for employers (Statement 45), collectively referred to as “the standard.” The standard requires public sector employers to account differently for certain non-pension retiree benefits (such as health and life insurance) that they provide to their employees during retirement. These benefits are referred to as Other Post Employment Benefits (OPEB). For many public sector employers, GASB’s new requirements have led to some confusion about their financial exposure and how to adequately fund their liabilities.

In January 2007, Aon Consulting conducted the 2007 GASB OPEB Survey of public sector employers asking them about the new standard and their plans to address and manage the accounting requirements. The survey results have confirmed that many public sector employers are unsure of the extent of their obligations and are undecided about what to do to control OPEB costs. Over half of survey respondents do not yet have a plan (or do not know if they have a plan in place) to handle the new accounting standards. Nearly 80% do not know what their GASB discount rate is or should be, and nearly 90% do not know how they are going to procure the money required to fund the obligations.

This report, *Navigating the GASB OPEB Standards*, offers insights into the actions public sector leaders are taking to address the new GASB standard and provides valuable benchmarking data. Only through understanding the impact of the new standard, and the magnitude of the costs, can affected employers begin to evaluate available options to minimize its effects through plan design and funding.



Philip A. Peterson, FSA

**Senior Vice President & National Practice Leader, Public Sector
Aon Consulting**

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The GASB OPEB Standards

The Government Accounting Standards Board's (GASB) new accounting standards for Other Post Employment Benefits (OPEB)—non-pension retiree benefits, such as health and life insurance—requires public sector entities to recognize OPEB expenses on financial statements as employees render service. This change from cash to an accrual accounting method is a significant accounting change for most entities.

The chart below illustrates that GASB's new requirements are applicable on a phased-in basis, depending on the size of the employer, as measured by revenue:

<i>GASB Standard Applies for Fiscal Years Starting After:</i>	<i>If Revenue Is:</i>
December 15, 2006	Over \$100 million
December 15, 2007	Between \$10 million and \$100 million
December 15, 2008	Under \$10 million

By the established deadline, government entities are charged with determining how to fund these other post employment benefits. To understand the implications of the new rules and to have flexibility in administering changes and preparing for the financial implications, employers should measure their OPEB costs and liabilities before the deadline. To evaluate how they will manage and maintain their retiree benefits plans, Aon Consulting recommends that employers follow a three-step process:

1. Conduct a baseline actuarial valuation
2. Determine funding options
3. Make plan design changes

The GASB OPEB Survey Objectives

To determine how the new accounting standards set forth by GASB for OPEB are being addressed, Aon Consulting conducted a survey of public sector employers across the United States in January 2007.

The survey focused on three areas of concern: baseline actuarial valuations, funding options, and plan design changes. This report of the 2007 survey results addresses the following fundamental questions and offers Aon Consulting's insights:

1. What are employers doing to implement a process to prepare for and conduct a valuation?
2. Do employers fully understand the definition of funding as it relates to the GASB requirements, and do they know what funding options are available?
3. How will employers change their plan design to accommodate the rulings?

Participant Demographics

Over 160 employers responded to Aon Consulting's GASB OPEB survey from all levels of government and public school systems in all regions of the United States. The following is a profile of respondents:

- Fifteen percent of the respondents represented organizations with more than 10,000 employees, 44% represented organizations with 501 to 9,999 employees, and 41% were from organizations with 500 or fewer employees.
- About 13% of organizations have under \$10 million in total revenue, 36% have between \$10 million and \$99 million, and 51% have \$100 million or more in total revenue.
- Eleven percent of respondents have 5,000 or more retirees, 55% have between 50 and 4,999 retirees, and 34% have fewer than 50 retirees.
- Thirty-six percent of organizations hold bond ratings of Aaa/AAA; 38% hold bond ratings of Aa/AA; 13% have bond ratings of A/A; 1% have a Baa/BBB; and 12% have other ratings.
- Seventy-one percent of respondents have collective bargaining groups.

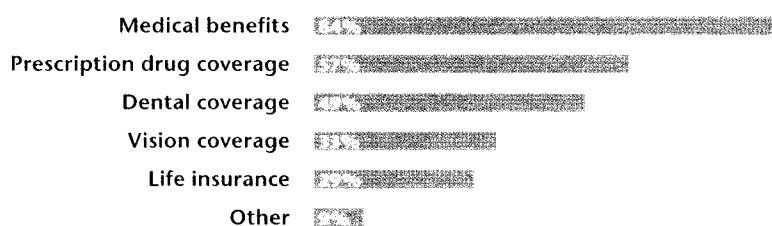
How Many Public Sector Entities Offer OPEB Benefits?

The Aon Consulting survey shows that the new standard will affect most governmental entities.

Respondents to the survey offer the following OPEB benefits:

- 84% offer medical benefits
- 57% offer prescription drug coverage
- 49% offer dental coverage
- 33% offer vision coverage
- 29% offer life insurance
- 9% offer other benefits

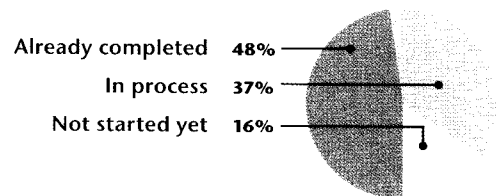
OPEB Plans Offered to Retirees



Baseline Actuarial Valuation

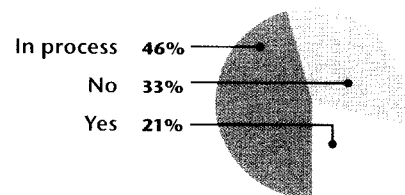
The first step in understanding the implications of the new accounting standard is to conduct a baseline actuarial valuation. Eighty-five percent of survey respondents indicate that they have begun the process of addressing GASB compliance—they are either in the process of developing, or have completed, a baseline actuarial valuation. Nearly 16% of respondents have not yet begun the valuation process.

Have you completed an initial baseline actuarial valuation?



In addition to conducting the baseline valuation, employers are creating a formal plan for the implementation and ongoing management of OPEB obligations. About two-thirds (67%) of survey respondents indicate they are in the process of creating, or have implemented, a formal plan. Of the remaining one-third of respondents (33%) who have not created a plan, 84% indicate they intend to do so.

Have you created a formal plan for the implementation and ongoing management of your OPEB obligations?



Aon Consulting Perspective: Conducting a Baseline Actuarial Valuation

An OPEB valuation is very similar to an actuarial pension valuation. Benefit costs are projected using a variety of actuarial assumptions, including variables that are not present in pension valuations: medical claims and the trend on those claims. These can make the variability in retiree medical valuation results greater than for pension plans. Performing the benefit valuation requires employers to gather the following data:

- Plan provisions—review all documents, plan summaries, and employee communications*
- Participant data—consider the demographics of both active and retired employees*
- Fund assets—look at financial statements to find out how benefits have been funded historically, if at all*
- Overall benefit costs—review two to three years of benefits claims experience to understand where and how costs are more substantial*
- Actuarial methods and assumptions—review any pension reports for demographic and economic assumptions that may be relevant for retiree medical benefits and access econometric and other actuarial data to understand how medical claims under your plan may trend, affecting future benefit cash flows*

In our experience, employers find the process to be illuminating. By delving into historical plan information, they gain invaluable knowledge about their plan's design that enables them to make informed decisions about future management of their plan.

Funding Options

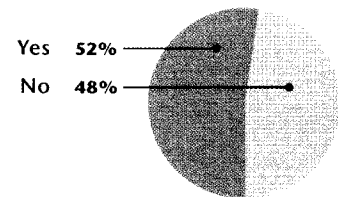
What does funding mean as it relates to GASB OPEB accounting requirements? Funding does not mean paying out benefits as retirees incur health care costs, nor does funding mean that you set aside two- to three-years worth of cash flow to pay out retiree benefits. Funding does refer to the money earmarked as being invested for the sole purpose of paying out retiree benefits. The "account" is invested and earns some rate of investment income and is noted as such for accounting purposes. It has the following characteristics:

- Employer contributions are irrevocable
- The assets are dedicated to providing retiree benefits
- The assets are legally protected from creditors

For GASB OPEB, this means establishing an irrevocable trust or making premium payments to an insurer. A few vehicles qualify as trusts in this regard, including a Voluntary Employee Benefit Association (VEBA), a Health Reimbursement Account (HRA) and a Section 115 trust.

More than half of survey respondents (52%) indicate they currently are funding retiree medical benefits, with 80% partially funding and 20% of respondents fully funding. More than half of respondents (63%) indicate they will consider changes to their funding strategy as a result of GASB. However, since 16% of respondents have indicated they have not yet begun a baseline valuation and another 37% have not yet finished, it is unclear if employers equate GASB funding with the more traditional pay-as-you-go benefits financing.

Are you currently funding retiree medical benefits?



Funding Vehicles

Fifty-five percent of employers are considering adopting a funding vehicle. The following three choices are preferred by survey respondents (respondents could choose multiple responses):

- **Voluntary Employee Benefit Association (VEBA)**—a trust created to fund life, sickness, accident or other benefits (39%)
- **Health Reimbursement Account (HRA)**—an employer-financed, account-based accident or health plan (39%)
- **Section 115 Trust**—a trust designated to fulfill an essential governmental function (35%)

Health Reimbursement Accounts (HRAs)	100%
Voluntary Employee Benefit Association (VEBA) trust fund	100%
Section 115 (governmental) trust	100%
Section 125 plan	100%
Leave conversion plan	100%
Section 401(h) qualified medical account (from a pension plan)	100%
Other	100%

Funding can change an employer's expected future plan payments and will reduce the liabilities and expenses reported under the standard. For example, funding plan benefits versus continuing the pay-as-you-go approach can reduce the annual OPEB expense by as much as 10% to 60%. The magnitude of the reduction will depend on many factors specific to the plan, such as the relationship between the discount rates (with and without funding), the plan of benefits, and the demographic composition of the plan membership.

While there is no legal requirement for employers to set aside money in an investment vehicle to cover retiree benefit costs, there are significant advantages to doing so:

- **Lower employer costs due to investment returns**—every dollar earned through an investment fund equals a dollar saved for the employer
- **More secure benefits**—benefit plans funded by dedicated assets show a commitment to the benefits program and implies that future benefit payments are being budgeted by the employer
- **Net OPEB Obligation realized on balance sheet is minimized**—smaller net obligations result in lower borrowing costs, which is viewed favorably by investors and bond rating agencies
- **Lower liability and annual required contribution (ARC)**—the better the investment return on the program's assets, the lower the OPEB liability and the fewer dollars an employer spends
- **Improved credit ratings**—funded programs indicate an employer understands the financial liability and is planning for the future, which tells bond rating agencies there will be improved cash flow management in the future

Aon Consulting Perspective: The Value of Funding

Any employer that offers a mix of retiree health programs should consider funding the benefits by setting up a trust fund and contributing an amount at least equal to the annual OPEB cost. The trust assets should include a mix of stocks and bonds. The return on this investment portfolio would be expected to be at least two percent per year higher than if the employer did not fund.

The measurement of program liabilities is inversely related to the interest rate; therefore, funding in a diversified portfolio allows the use of a higher interest rate in valuing the program liabilities. The following table illustrates how funding can dramatically reduce the annual expense, balance sheet liability, and the unfunded actuarial liability, both initially and over time. As seen in the chart, funding will reduce the initial annual expense by 19%—from \$5.7 to \$4.6 million. Without funding, the balance sheet liability grows rapidly, while funding prevents a Net OPEB Obligation from appearing on the balance sheet. Funding also reduces the initial liability disclosed in the notes to the financial statement by 24%—from \$47.3 to \$35.9 million. More dramatically, funding reduces this liability by 65% in the 15th year—from \$139 to \$49 million.

		Initial Valuation	Year 5	Year 10	Year 15
Without Funding	Annual OPEB costs on income statement	\$5,700,000	\$7,800,000	\$11,400,000	\$16,700,000
	Balance sheet liability (Net OPEB Obligation)	\$0	\$16,000,000	\$41,000,000	\$78,000,000
	Unfunded Actuarial Accrued Liability disclosed in notes to financial statements	\$47,300,000	\$64,000,000	\$94,000,000	\$139,000,000
With Funding	Annual OPEB costs on income statement	\$4,600,000	\$4,800,000	\$5,400,000	\$6,400,000
	Balance sheet liability (Net OPEB Obligation)	\$0	\$0	\$0	\$0
	Unfunded Actuarial Accrued Liability disclosed in notes to financial statements	\$35,900,000	\$37,000,000	\$41,000,000	\$49,000,000

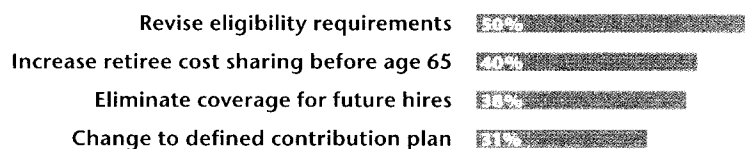
Note: Private sector employers attempting to fund their OPEB costs are confronted with significant federal income tax obstacles that do not apply to public sector employers.

Plan Design Changes

In response to the new accounting standard, two-thirds of survey respondents indicate they are not considering plan design changes to reduce OPEB costs. The remaining one-third of respondents will make, or are considering, plan modifications with the following top four plan design changes under consideration (respondents could choose multiple responses):

1. Revise eligibility requirements (50%)
2. Increase retiree cost sharing before age 65 (40%)
3. Eliminate coverage for future hires (38%)
4. Change to defined contribution plan (31%)

Top Four Plan Changes Under Consideration



Employers should begin exploring potential plan design changes as soon as possible to allow ample time to implement all plan changes by the GASB compliance deadline and to communicate with and educate employees. Plan changes can significantly impact and/or reduce plan costs. For example, any plan changes that reduce the rate of future medical inflation by just 1% can result in a reduction in OPEB liabilities (and total cash flow) of more than 10%.

More importantly, employers must start and continue a dialogue with constituents including administrators, auditors, collective bargaining negotiators, taxpayers, elected officials, and any other parties who could raise concerns about proposed funding and plan changes. Buy-in from these individuals and/or groups will be critical when implementing GASB-related changes.

Aon Consulting Perspective: Communicating Changes in Retiree Benefits

As governmental and other public sector entities, such as public school systems, choose how to address GASB OPEB requirements—through plan design, funding, or both—a comprehensive communication and implementation strategy is essential. A thorough and inclusive plan will identify critical stakeholders; craft targeted, appropriate messages; and assist in developing an action plan to help ensure understanding and engagement.

Identifying the variety of stakeholders, or audiences, is a key first step in developing a comprehensive plan. Each audience needs to understand how any changes affect them, what they need to do or do differently, and to whom they can turn with questions. Audiences may include:

- Active employees—traditionally long-service employees may not be aware of the market value of their benefits and may have an expectation of generous health care benefits extending into retirement*
- Employees nearing early retirement—depending on the plan design, the group of employees within five years of early retirement may be as young as age 50*
- Employees about to retire—plan design and/or cost changes may influence retirement timing decisions*
- Current retirees and their caregivers—an important “lesson learned” from the implementation of Medicare Part D is that information provided to retirees should also be shared with their caregivers, if at all possible*
- Employees and retirees covered by a collective bargaining agreement—to the extent that plan design and cost changes may affect union employees and retirees, the communication to this population needs to be sensitive to avoid unnecessary employee- and media-relations issues*

Other audiences to consider:

- Taxpayers and the community—there may be an increased tax burden or reduced municipal services as a result of funding requirements*
- Leadership from collectively bargained organizations—the level and timing of communication with union leadership depends on their role in the decision process. A courtesy, in-person briefing and advance copies of communication materials will garner a significant amount of good will*
- Training and speaker/press support for employees with organizational and/or financial accountability—such as business or township managers, who may need assistance to educate elected officials, in many cases before plan design or funding decisions can be approved. If plan features change as a result of the GASB analysis, these employees will also be on the “front lines” for employee and retiree phone calls.*
- Support for elected officials—those who may be called upon to answer questions in a public forum need additional resources*

What About Medicare Part D Subsidies?

GASB requires public sector employers providing medical benefits to their Medicare-eligible retirees, who also benefit from Medicare assuming a portion of the prescription drug cost for these retirees, to separately account for the subsidy payments they receive to cover pharmacy costs. GASB has determined that future Medicare Part D subsidies cannot be utilized to reduce the actuarial costs and liabilities of an employer's GASB obligations. Instead, they will need to be stated separately as they are received.

However, many plan sponsors are considering dedicating any federal subsidies they receive to a trust fund to meet OPEB obligations and, therefore, treat these amounts as employer contributions towards funding plan benefits. Using these subsidies to create a funding discipline is a good thing, since it will force the establishment of policies and practices to ensure proper stewardship of the trust monies, no matter how insignificant they are.

General OPEB Confusion

Retiree benefits, particularly medical, are extremely valuable to public sector employees. Often, these benefits are "attractors" when public sector employers compete to hire the most talented employees. However, the cost of offering these programs has increased significantly over the years. GASB's new accounting standards have been developed to help public sector employers evaluate the affordability of these benefits and to help manage related costs.

Many government employers have not yet addressed how the GASB standard will affect their plans. Sixteen percent of respondents have not started a baseline valuation and another 37% have not finished; 63% do not know if they would change benefit funding; and about 66% do not plan to make any benefit changes.

The work done by public sector employers over the next few months is crucial, so the three-step process outlined in this report should begin as soon as possible. If necessary, employers should seek assistance now. Preparedness is vital to addressing and meeting GASB compliance requirements.

Aon Consulting's 2007 GASB OPEB Survey: Survey Results

1. What current OPEB plans do you offer retirees? (Select all that apply.)

Dental	49.0%
Life Insurance	29.0%
Medical	84.0%
Prescription Drug	57.0%
Vision	33.0%
Other (please specify)	9.0%

2. Has your organization completed an initial baseline actuarial valuation to measure the size of the Annual Required Contribution and Actuarial Accrued Liability?

Not started yet	15.6%
In process	36.7%
Already completed	47.7%

3. Other than completing an initial baseline actuarial valuation, have you created a formal plan for the implementation and ongoing management of your OPEB obligations?

Yes	21.3%
No	33.0%
In process	45.7%

4. If you answered no to Question 3, do you intend to create a formal plan?

Yes	83.9%
No	16.1%

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5. If you answered "In process" or "Already completed," to Question 2, what is the next step your organization will take in managing your OPEB liabilities? (Select all that apply.)

Begin discussions with management to consider range of alternatives	67.4%
Consider adopting alternatives for funding the benefits	51.1%
Consider changing the plan's benefit design	43.5%
Consider Medicare Part D subsidy alternatives	20.7%
Nothing considered at this point	10.8%

6. Are you currently funding retiree medical benefits?

Yes	52.3%
No	47.7%

7. How do you currently fund retiree medical benefits?

Full funding (i.e., cash is set aside to completely fund medical benefits earned today, even though they will not be paid to retirees until the future)	20.0%
Partial funding	80.0%

8. As a result of the new GASB accounting standards, are you considering changes to the way you fund retiree medical benefits to reduce your OPEB costs?

Yes	63.3%
No	36.7%

9. If you answered yes to Question 8, what changes in retiree medical funding are you considering or adopting?

Full funding	29.0%
Partial funding	71.0%

10. If the plan/benefits are to be funded, are you adopting or considering a funding vehicle
(see Question 11 for funding vehicles)?

Yes	55.3%
No	44.7%

11. If you answered yes to Question 10, what funding vehicle(s) are you adopting or considering?
(Select all that apply.)

Health reimbursement accounts (HRAs)	38.5%
Leave conversion plan	11.5%
Section 115 (governmental) integral part trust	34.6%
Section 125 plan	19.2%
Section 401(h) qualified medical account (from a pension plan)	7.7%
Voluntary Employee Benefit Association (VEBA) trust fund	38.5%
Other (please specify)	7.7%

12. What financing methods are you considering? (Select all that apply.)

General purpose bonds	12.5%
OPEB obligation bonds	12.5%
Revenue increases through other means (tax increases, change in assessment structure, use of endowment funds, special capital campaign, etc.)	21.9%
Nothing at this time	53.1%

13. If you are considering funding of your OPEB liabilities, what alternatives do you intend to consider
to manage the assets?

No change, already manage OPEB assets	3.6%
Create a trust board to manage trust assets	21.4%
Hire a discretionary manager to manage trust assets	28.6%
Use our current pension board to manage trust assets	14.3%
Manage assets in-house similar to our pension/other trust funds	14.2%
Manage assets in-house similar to our operating funds	17.9%

14. If you already manage OPEB assets, how are they currently managed?

Pension board	7.1%
Discretionary manager	21.4%
In-house similar to pension/other trust funds	21.4%
In-house similar to operating funds	50.1%

15. In response to the new GASB accounting standards, are you considering/have you adopted any revisions to the benefits currently being offered under the plan to reduce your OPEB costs?

Yes	33.7%
No	66.3%

16. If you answered yes to Question 15, what benefit revisions are you considering, or have you adopted, to reduce your OPEB costs? (Select all that apply.)

Change the plan to a defined contribution plan	31.3%
Change the plan to a defined benefit pension plan	0.0%
Eliminate benefits for current active employees: pre-age 65	9.4%
Eliminate benefits for current active employees: post-age 65	9.4%
Eliminate benefits for current retirees: pre-age 65	3.1%
Eliminate benefits for current retirees: post-age 65	9.4%
Implement defined dollar employer contributions	28.1%
Eliminate coverage for future hires	37.5%
Implement employer subsidy cap	28.1%
Increase retiree cost sharing: pre-age 65	40.0%
Increase retiree cost sharing: post-age 65	28.1%
Introduce Medicare coordination of benefits	21.9%
Reduce benefits	21.9%
Revise eligibility for benefits (age and/or service requirements)	50.0%
Other	9.4%

17. Do you offer retiree prescription drug coverage?

Yes	79.0%
No	21.0%

18. Are the prescription drug benefits provided under your retiree medical plan at least actuarially equivalent to Medicare Part D drug coverage?

Yes	95.9%
No	4.1%

19. Have you determined your approach for addressing Medicare Part D subsidies, available to you for providing prescription drug coverage, under your retiree medical plan?

Yes: Contract with a Medicare Part D plan to provide drug coverage and indirectly receive the Medicare retiree drug subsidy through lower premiums for the drug coverage	9.9%
Yes: Encourage retirees to stay in our program to collect the Medicare retiree drug subsidy	32.4%
Yes: Wrap our program's drug coverage around a Medicare Part D plan to reduce our program's cost	4.2%
No: We have not yet determined an approach	46.5%
Other	7.0%

20. GASB has recently decided that expected future Part D subsidies cannot reduce the size of the future OPEB obligation for retiree drugs. Instead, they must be treated as plan contributions or employer income in the year they are received. How will this recent GASB decision change your current approach for addressing Medicare Part D as you described in the answer to Question 29?

I will change my approach to: Contract with a Medicare Part D plan to provide drug coverage and indirectly receive the Medicare retiree drug subsidy through lower premiums for the drug coverage	2.7%
I will change my approach to: Encourage retirees to stay in our program to collect the Medicare retiree drug subsidy	1.4%
No change	41.1%
Don't Know: we are currently studying the issue	39.7%
Don't Know: we were unaware of GASB's treatment of the retiree drug subsidy	15.1%

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Aon Consulting leverages its global network of offices and consultants to provide innovative and high-impact benefits, talent management, and rewards strategies and solutions. Our services include:

Human Capital Consulting Services

- **Global Benefits:** We have the ability to provide global services in employee benefits, coalition purchasing, outsourcing, membership group purchasing programs, voluntary benefits services and benefit assessment surveys. In addition, our health and productivity experts evaluate all factors that affect workforce productivity—health status, chronic disease, leadership, training, compensation, benefit plan designs, etc. We help clients identify new health and productivity management strategies in support of their business objectives, whether that's consumer driven health programs or flexible benefit plans.
- **Retirement:** We help our clients design, administer, fund and communicate a defined benefit and/or a defined contribution plan, whether it is brand new or a change to a previous plan. Our approach to a bundled DB/DC solution saves clients time and money and improves employee satisfaction and retention. We also have expertise in executive benefits, tax, investment and insurance consulting.
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- **Global Compensation:** Our compensation experts can help you define, design and deploy global compensation and reward strategies that are both legally compliant and geared to your business needs. We create pay systems that encourage productivity, focus executives on desired behaviors and outcomes, and reward achievements that are strategically aligned with the company's short and longer-term objectives. Aon's Radford Surveys + Consulting and McLagan Partners are the leading providers of financial benchmarking, stock option valuations, compensation data and market studies for the technology and financial industries.

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